

PELLSTON PUBLIC SCHOOLS

REPORT ON FINANCIAL STATEMENTS

(with required supplementary and additional information)

JUNE 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

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July 18, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Pellston Public Schools
Pellston, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pellston Public Schools, Pellston, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pellston Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pellston Public Schools, Pellston, Michigan, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2008, on our consideration of Pellston Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through ix and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pellston Public Schools, Pellston, Michigan basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The prior year comparative information has been derived from the Pellston Public School's 2007 financial statements and, in the audit report dated September 10, 2007, the prior auditor expressed an unqualified opinion on the respective financial statements.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

As management of *Pellston Public Schools* (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights Section

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$4,839,306 creating a deficit net assets amount. Of this amount net capital assets net of related debt was a negative \$2,217,819.
- The government's total net deficit increased by \$174,463.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$817,222, an increase of \$54,509 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$292,460 or 4.8% of total General Fund expenditures (excluding transfers).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-Wide Financial Statements The *District-Wide Financial Statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (*e.g., earned but unused sick or vacation leave*).

Both of the District-wide financial statements distinguish functions of the District's that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food services and athletics. The District had no business-type activities as of and for the year ended June 30, 2008.

The District-wide financial statements can be found on pages 1-2 of this report.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains eight individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered a major fund. Data from the other seven governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund and each special revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental funds financial statements can be found on pages 3 and 5 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. The only fiduciary fund of the District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statement can be found on page 7 of this report.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 11-25 of this report.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

District-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, its liabilities exceeded assets by \$4,839,306 at the close of the most recent fiscal year. It is expected that a deficit will continue until such time as debt incurred by the District for facility improvements between 1993 and 2004 is substantially repaid and the value of the improved facilities is greater than the sum of outstanding bonds for the improvements.

A large portion of the District's net assets (deficit) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net assets (deficit) represents resources that are subject to external restrictions on how they may be used. The District has \$(2,621,487) of unrestricted net assets.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Pellston Public Schools
Change in Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current Assets	\$ 3,295,136	\$ 3,119,240
Capital Assets, Net of Accumulated Depreciation	5,359,087	5,961,754
Total Assets	8,654,223	9,080,994
Liabilities		
Current Liabilities	3,496,140	3,246,494
Long-Term Liabilities	9,997,389	10,499,343
Total Liabilities	13,493,529	13,745,837
Net Assets		
Invested in Capital Assets, Net of Related Debt	(2,217,819)	(2,508,517)
Unrestricted (Deficit)	(2,621,487)	(2,156,326)
Total Net Assets (Deficit)	\$ (4,839,306)	\$ (4,664,843)

The District's deficit increased by \$174,463 during the current fiscal year. The District's blended enrollment is approximately 731 students.

Pellston Public Schools
Change in Net Assets

	2008	2007
Revenues		
Program Revenues		
Charges for Services	\$ 156,812	\$ 143,694
Operating Grants and Contributions	1,229,663	1,204,505
General Revenues		
Property Taxes	3,792,344	3,586,594
Unrestricted Investment Interest	75,655	73,820
State Sources	2,324,608	2,884,417
Other	77,155	61,222
Total Revenues	7,656,237	7,954,252

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Pellston Public Schools
Change in Net Assets

	<u>2008</u>	<u>2007</u>
Expenses		
Instruction	4,080,146	3,996,229
Support Services	2,111,638	1,990,768
Community Services	12,093	0
Food Services	288,319	271,138
Athletics	161,411	169,489
Interest/Fees on Long-Term Debt	569,267	823,621
Other Transactions	2,636	0
Depreciation (Unallocated)	605,190	606,119
Total Expenses	<u>7,830,700</u>	<u>7,857,364</u>
Change in Net Assets	(174,463)	96,888
<u>Net Assets (Deficit) - Beginning of Year</u>	<u>(4,664,843)</u>	<u>(4,761,731)</u>
<u>Net Assets (Deficit) - End of Year</u>	<u><u>\$ (4,839,306)</u></u>	<u><u>\$ (4,664,843)</u></u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, District's governmental funds reported combined ending fund balances of \$817,222, an increase of \$54,509 in comparison with the prior year. Approximately 35% of the ending fund balances of \$817,222 constitute unreserved fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is reserved to indicate that it is not available for current expenditures.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$292,460. As a measure of the General Fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents approximately 5.9% of total General Fund expenditures (excluding transfers).

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

The fund balance of the District's General Fund increased by \$102,858 during the current fiscal year. This increase is primarily attributable to increases in revenue and spending adjustments during the year to balance revenues and expenditures.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various District programs.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$5,359,087 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, vehicles and equipment.

Pellston Public Schools
Capital Assets (Net of Depreciation, When Applicable)

	2008	2007
Land and Improvements	\$ 466,000	\$ 469,750
Buildings and Improvements	4,461,248	4,962,460
Vehicles	175,228	219,173
Equipment	256,611	310,371
	<hr/>	<hr/>
Total Capital Assets	\$ 5,359,087	\$ 5,961,754
	<hr/>	<hr/>

Additional information on the District's capital assets can be found in Note 3 C on page 17 of this report.

Long-Term Debt. At year-end, the District had total bonded debt, installment contracts, accreted interest on capital appreciation bonds, accrued compensation and retirement payable outstanding of \$10,999,747. Of this amount, \$25,768 is a Durant resolution bond which are not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from the state appropriations.

Additional information on the District's long-term debt can be found in Note 3 D on pages 18-20 of this report.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Factors Bearing on the District's Future

We considered many factors when setting the District's 2008-09 fiscal year budget.

- With the current economic condition in the State of Michigan, uncertainty surrounds the level at which our district will be funded for the student foundation allowance for the 2008-09 fiscal year. It is statistically difficult to calculate future declining enrollments due to an increasing number of students either moving out of district or transferring to other schools through schools of choice.
- The costs for utilities continue to increase. In spite of our efforts to reduce energy consumption in the past, these costs have increased beyond estimates and are unpredictable. These increases put pressure on an already tight budget and we will continue to explore ways to reduce these costs.
- Fuel costs for transportation have almost doubled over the last two years. The district covers 248 square miles and reducing transportation costs is not an option as getting students to and from schools is a priority. The Board has allowed for groups such as Athletics and extra trips to pay direct costs for transportation which helps pay for some of our ever increasing transportation expense.
- The Board planned for a decrease in costs for professional staff members through a buyout option offered in 2008. The net savings greatly assisted in achieving a balanced budget in 2008-09.
- In 2008 the Board reduced one administrative principal position. One position was created for curriculum and instruction, however this will position will be partially paid for by grants.
- The State continues to increase its focus on student academic achievement. Results of standardized test scores (MEAP) are compared from year to year with the results tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will become important for maintaining and increasing funding levels as portions of the funding are not tied to it.

Request for Information

The financial report is designed to a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pellston Public Schools, Superintendent of Schools, 172 N. Park Street, Pellston, Michigan 49769-0016.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,407,621
Investments	1,158,472
Accounts Receivable	480
Due from Other Governments	649,599
Inventories	78,964
Total Current Assets	<u>3,295,136</u>

NON CURRENT ASSETS

Capital Assets	13,645,767
Less Accumulated Depreciation	<u>(8,286,680)</u>
Total Non Current Assets	<u>5,359,087</u>

TOTAL ASSETS	<u><u>\$ 8,654,223</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 25,794
State Aid Anticipation Note	1,738,514
Accrued Expenses	205,251
Accrued Interest	41,636
Salaries Payable	480,887
Deferred Revenue	1,700
Current Portion of Non Current Liabilities	<u>1,002,358</u>
Total Current Liabilities	<u>3,496,140</u>

NON CURRENT LIABILITIES

Bonds Payable	7,527,998
Contracts Payable	74,675
Early Retirement Incentives	183,509
Compensated Absences	18,766
Other Obligations	3,194,799
Less Current Portion of Non Current Liabilities	<u>(1,002,358)</u>
Total Non Current Liabilities	<u>9,997,389</u>
Total Liabilities	<u>13,493,529</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt (Deficit)	(2,217,819)
Unrestricted - (Deficit)	<u>(2,621,487)</u>
Total Net Assets	<u>(4,839,306)</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 8,654,223</u></u>
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The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	EXPENDITURES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	NET (EXPENSE)
					REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 4,080,146	\$ 0	\$ 963,763	\$ 0	\$ (3,116,383)
Supporting Services	2,111,638	23,679	72,541	0	(2,015,418)
Community Services	12,093	2,349	0	0	(9,744)
Food Service Activities	288,319	88,921	193,359	0	(6,039)
Athletic Activities	161,411	41,863	0	0	(119,548)
Interest on Long Term Debt	569,267	0	0	0	(569,267)
Other Transactions	2,636	0	0	0	(2,636)
Unallocated Depreciation	605,190	0	0	0	(605,190)
Total Governmental Activities	<u>\$ 7,830,700</u>	<u>\$ 156,812</u>	<u>\$ 1,229,663</u>	<u>\$ 0</u>	<u>(6,444,225)</u>
<u>GENERAL REVENUES</u>					
Property Taxes -Levied for General Purposes					2,867,254
Property Taxes -Levied for Debt Service					925,090
Investment Earnings					75,655
State Sources					2,324,608
Other					77,155
Total General Revenues					<u>6,269,762</u>
Change in Net Assets					(174,463)
NET ASSETS - Beginning of Year - (Deficit)					<u>(4,664,843)</u>
NET ASSETS - End of Year - (Deficit)					<u>\$ (4,839,306)</u>

The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 969,348	\$ 438,273	\$ 1,407,621
Investments	1,158,472	0	1,158,472
Accounts Receivable	124	356	480
Due from Other Funds	6,250	41,851	48,101
Due from Other Governments	621,980	27,619	649,599
Inventories	71,943	7,021	78,964
 TOTAL ASSETS	 \$ 2,828,117	 \$ 515,120	 \$ 3,343,237
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 22,043	\$ 3,751	\$ 25,794
Due to Other Funds	24,389	23,712	48,101
State Aid Anticipation Note	1,738,514	0	1,738,514
Accrued Expenses	204,222	1,029	205,251
Salaries Payable	474,546	6,341	480,887
Deferred Revenue	0	27,468	27,468
 Total Liabilities	 2,463,714	 62,301	 2,526,015
<u>FUND BALANCE</u>			
Reserved for Inventory	71,943	7,021	78,964
Reserved for Debt Service	0	447,136	447,136
Unreserved, Designated, Reported in:			
Special Revenue Funds	0	3,807	3,807
Unreserved, Undesignated, Reported in:			
General Fund	292,460	0	292,460
Special Revenue Fund - (Deficit)	0	(5,145)	(5,145)
 Total Fund Balances	 364,403	 452,819	 817,222
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 2,828,117	 \$ 515,120	 \$ 3,343,237

The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2008

Total Governmental Fund Balances	\$ 817,222
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is	\$ 13,645,767	
Accumulated depreciation is	<u>(8,286,680)</u>	5,359,087

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by unearned revenues in the governmental funds, and thus not included in fund balance

Unearned revenues related to Durant settlement	25,768
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Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds Payable	(7,527,998)
Interest Accretion on Capital Appreciation bonds	(3,194,799)
Contracts Payable	(74,675)
Early Retirement Incentives	(183,509)
Compensated Absences	(18,766)

Accrued interest is not included as a liability in governmental funds, it is recorded when paid	<u>(41,636)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (4,839,306)</u></u>
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The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	GENERAL FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 3,000,496	\$ 1,076,376	\$ 4,076,872
State Sources	2,741,435	13,735	2,755,170
Federal Sources	243,306	179,624	422,930
Other Transactions	403,265	0	403,265
Total Revenues	<u>6,388,502</u>	<u>1,269,735</u>	<u>7,658,237</u>
<u>EXPENDITURES</u>			
Instruction	3,949,288	0	3,949,288
Supporting Services	2,075,948	0	2,075,948
Food Service Activities	0	288,319	288,319
Athletic Activities	0	146,258	146,258
Community Services	12,093	0	12,093
Debt Service			
Principal	0	795,000	795,000
Interest and Fees	0	261,588	261,588
Other Transactions	75,234	0	75,234
Total Expenditures	<u>6,112,563</u>	<u>1,491,165</u>	<u>7,603,728</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>275,939</u>	<u>(221,430)</u>	<u>54,509</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	354,474	354,474
Transfers Out	(173,081)	(181,393)	(354,474)
Total Other Financing Sources (Uses)	<u>(173,081)</u>	<u>173,081</u>	<u>0</u>
Net Change in Fund Balance	102,858	(48,349)	54,509
<u>FUND BALANCE</u> - Beginning of Year	<u>261,545</u>	<u>501,168</u>	<u>762,713</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 364,403</u>	<u>\$ 452,819</u>	<u>\$ 817,222</u>

The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances Total Governmental Funds	\$ 54,509
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the statement of activities.

Depreciation Expense	(620,343)
Capital Outlay	19,676
Cost of Capital Assets Sold or Disposed of	(2,000)

Accrued and accreted interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	48,137
Accrued Interest Payable - End of Year	(41,636)
Accreted Interest Payable on Capital Appreciation Bonds - Beginning of Year	2,880,619
Accreted Interest Payable on Capital Appreciation Bonds - End of Year	(3,194,799)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Repayment of Bond Principal	795,000
Principal Paid on Long-Term Debt - Contracts Payable	72,598

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated Sick Pay - Beginning of Year	16,051
Accumulated Sick Pay - End of Year	(18,766)
Early Retirement Incentive - Beginning of Year	0
Early Retirement Incentive - End of Year	(183,509)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (174,463)</u>
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The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 2,604
Investments	<u>77,844</u>
 TOTAL ASSETS	 80,448
 <u>LIABILITIES AND NET ASSETS</u>	
 <u>LIABILITIES</u>	
Due to Groups and Organizations	<u>80,448</u>
 <u>NET ASSETS</u>	 <u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Pellston Public Schools (the “District”) is located in Emmet and Cheboygan Counties with its administrative offices located in Pellston, Michigan. The District is governed by the Pellston Public School Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government–Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-Major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust funds* are accounted for using the accrual method of accounting.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

D. Other Accounting Policies

1. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1, and due December 1. The levy becomes delinquent as of February 14 for all taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.0000
Debt Service Fund - Homestead and Non-Homestead	3.2000

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventory in the General Fund consists of a vocational education home being built. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

5. Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and Improvements	20-50
Land Improvements	20
Equipment	5-20
Vehicles	7-10

6. Compensated Absences

District policy permits certain employees to accumulate earned but unused sick pay benefits which are paid when the employee separates from service with the District. A liability is recorded in the statement of net assets for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. Encumbrances lapse at year end and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year, the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 25, 2007, or as amended by the School Board of Education on June 30, 2008.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

General Fund – Basic Programs expenditures of \$3,093,318 exceeded appropriations of \$3,089,215; Added Needs expenditures of \$855,970 exceeded appropriations of \$849,984; General Administration expenditures of \$243,991 exceeded appropriations of \$243,539; School Administration expenditures of \$461,222 exceeded appropriations of \$460,767; Business expenditures of \$150,587 exceeded appropriations of \$150,582; Operating and Maintenance expenditures of \$573,586 exceeded appropriations of \$566,785. School Service Fund – Food Service Activities expenditures of \$288,319 exceeded appropriations of \$288,170. These over expenditures were funded by available fund balance.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments – Credit Risk

The District's deposits and investments are on deposit with Citizens National Bank and Michigan School District Liquid Asset Fund Plus.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$2,345,741 of the government's bank balance of \$2,645,741 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, all of the District's investments were uncategorized as to risk.

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool share.

Balance sheet classifications:

	Petty Cash	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 800	\$ 1,406,821	\$ 0	\$ 2,604	\$ 1,410,225
Investments	0	0	1,158,472	77,844	1,236,316
	<u>\$ 800</u>	<u>\$ 1,406,821</u>	<u>\$ 1,158,472</u>	<u>\$ 80,448</u>	<u>\$ 2,646,541</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds are as follows:

	<u>General</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables			
Accounts	\$ 124	\$ 356	\$ 480
Due from Other Governments	621,980	27,619	649,599
Total Receivables	<u>\$ 622,104</u>	<u>\$ 27,975</u>	<u>\$ 650,079</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
State Aid Receivable (Debt Service Fund - Durant Settlement)	\$ 25,768	\$ 0
Revenue Received, But Not Yet Utilized	0	1,700
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 25,768</u>	<u>\$ 1,700</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

C. Capital Assets

Capital assets activity was as follows for the year ended June 30, 2008:

	Balance July 1, 2007	Additional	Deletions	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 435,000	\$ 0	\$ 0	\$ 435,000
Capital assets being depreciated				
Buildings and Improvements	\$ 11,499,574	\$ 0	\$ 0	\$ 11,499,574
Land Improvements	75,000	0	0	75,000
Equipment	1,007,640	19,676	0	1,027,316
Vehicles	661,615	0	52,738	608,877
Subtotal	13,243,829	19,676	52,738	13,210,767
Less Accumulated Depreciation For:				
Buildings and Improvements	(6,522,913)	(515,413)	0	(7,038,326)
Land Improvements	(40,250)	(3,750)	0	(44,000)
Equipment	(711,470)	(59,235)	0	(770,705)
Vehicles	(442,442)	(41,945)	50,738	(433,649)
Total Accumulated Depreciation	(7,717,075)	(620,343)	50,738	(8,286,680)
Total Capital Assets Being Depreciated, Net	5,526,754	(600,667)	2,000	4,924,087
Capital Assets, Net	\$ 5,961,754	\$ (600,667)	\$ 2,000	\$ 5,359,087

Depreciation expense was charged to functions//programs of the District as follows:

Governmental activities	
Athletics	\$ 15,153
Unallocated	605,190
Total depreciation expense - governmental activities	\$ 620,343

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Construction Commitments:

The District has no active construction projects as of June 30, 2008.

D. Long-Term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2002 School Building and Site Construction Bonds, due through May 2016 in semi-annual installments of interest and annual principal payments varying from \$190,000 - \$240,000 bearing interest rates ranging from 4.25% to 4.375%.	\$1,975,000	0	\$ 180,000	1,795,000	190,000
1998 General Obligation Refunding Bonds, due through May 2012 in semi- annual installments of interest and annual principal payments varying from \$620,000 - \$800,000 with interest rates ranging from 4.50% to 4.75%.	3,405,000	0	565,000	2,840,000	620,000

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
1993 General Obligation Refunding Bonds, due from May 2013 through May 2022 in annual installments of interest and annual principal payments varying from \$189,900 - \$284,638 with interest rates ranging from 5.70% to 5.90%.	2,437,230	0	0	2,437,230	0
2004 Energy Conservation Improvement Bonds due thorough May 2015 in semi-annual installments of interest and principal payments varying from \$55,000 - \$70,000 with an interest rate of 4.21%	480,000	0	50,000	430,000	55,000
Durant Settlement Bonds, due thorough May 2013 in annual installments of principal payments varying from \$2,546 to \$14,840, including interest charged at 4.76%.	25,768	0	0	25,768	14,840
Various bus notes payable, (Installment Purchase Agreement) due from July 15, 2006 through September 22, 2009 in annual installments of interest and principal, principal payments from \$10,822 through \$31,082 with interest rates ranging from 2.87% to 4.29%.	126,273	0	62,317	63,956	53,134

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bleacher note payable due July 27, 2008, in annual installments of interest and principal of \$11,180 with an interest rate of 4.29%.	21,000	0	10,281	10,719	10,719
Early retirement payable.	0	203,994	20,485	183,509	58,665
Interest accretion on the 1993 capital appreciation bonds.	2,880,619	314,180	0	3,194,799	0
Compensated absences.	16,051	3,025	310	18,766	0
Total long-term debt	<u>\$ 11,366,941</u>	<u>\$ 521,199</u>	<u>\$ 888,393</u>	<u>\$ 10,999,747</u>	<u>\$ 1,002,358</u>

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Debt service requirements

Annual debt service requirements to maturity for the above obligations except for the compensated absences and the accreted interest on the 1993 capital appreciation bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2009	\$ 1,002,358	\$ 234,465	\$ 1,236,823
2010	1,007,033	188,499	1,195,532
2011	1,083,844	146,293	1,230,137
2012	1,097,792	100,094	1,197,886
2013	587,563	619,809	1,207,372
2014-2018	2,175,830	3,574,081	5,749,911
2019-2022	831,762	3,173,307	4,005,069
	<u>\$ 7,786,182</u>	<u>\$ 8,036,548</u>	<u>\$ 15,822,730</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

E. Short-Term Debt

During fiscal 2008 the District repaid the 2006 state aid anticipation note of \$1,500,000, which had a balance of \$1,543,678 including accrued interest on June 30, 2007. On August 19, 2007, the District borrowed \$1,685,000 on a 2007 state aid anticipation note. At June 30, 2008, the balance outstanding on this note was \$1,738,514, including accrued interest. Total interest expense for the year ending June 30, 2008 related to this debt was \$53,514.

F. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2008, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 6,250	\$ 24,389
Nonmajor Funds	41,851	23,712
	<u>\$ 48,101</u>	<u>\$ 48,101</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2008, are expected to be repaid within one year.

Interfund transfers are as shown in the individual fund financial statements at June 30, 2008, were:

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 173,081
School Service Fund - Athletic Activities	102,648	0
Debt Retirement Fund - 1992 Bond Issue	0	181,393
Debt Retirement Fund - 1998 Bond Issue	181,393	0
Debt Retirement Fund - 2004 Energy Bond Issue	70,433	0
	<u>\$ 354,474</u>	<u>\$ 354,474</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations

G. Designated and Reserved Fund Balance/Net Assets

In order to comply with generally accepted accounting principles and meet certain legal requirements, the District has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE

Reserved

General Fund		
Inventory	\$	71,943
Special Revenue Funds		
Food Service Fund		
Inventory		7,021
Debt Service Funds		
Reserved for Debt Service		
1998 Refunding Debt Service Fund	\$	252,483
2002 Debt Service Fund		194,653
		<u>447,136</u>
 TOTAL FUND BALANCE/NET ASSETS RESERVES	 \$	 <u><u>526,100</u></u>

Unreserved - Designated

Special Revenue Funds		
Athletic Fund		
Athletics	\$	3,807
		<u>3,807</u>
 TOTAL FUND BALANCE DESIGNATIONS	 \$	 <u><u>3,807</u></u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990, contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008, was 17.74% for the first quarter and 16.72% for the remainder of the year. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2008, 2007, and 2006 were approximately \$567,000, \$583,000, and \$550,000 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post Employment Benefits Funding Policy

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

B. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

C. Single Audit Report

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a "Single Audit" of federally funded programs. At June 30, 2008, the School District's expenditures for federally funded programs were less than \$500,000 and therefore, the District is not required to have a "Single Audit" for the fiscal year ended June 30, 2008.

D. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

E. Sale of Future Revenues

For several years, the District has sold its rights to delinquent real property tax revenues and related late payment penalties to the Emmet County treasurer and the Cheboygan County treasurer. For the 2007 tax roll the District received a lump sum payment of \$229,223 for general operating tax revenues, and \$81,695 for debt service tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the counties are allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the counties are unable to collect any of these delinquent taxes, the District will have to repay the counties.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 2,964,128	\$ 3,021,112	\$ 3,000,496
State Sources	2,583,126	2,739,834	2,741,435
Federal Sources	159,552	255,819	243,306
Other Transactions	408,384	400,192	403,265
Total Revenues	<u>6,115,190</u>	<u>6,416,957</u>	<u>6,388,502</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	2,916,888	3,089,215	3,093,318
Added Needs	986,689	849,984	855,970
Supporting Services			
Pupil	139,545	144,318	144,296
Instructional Staff	129,022	136,930	136,929
General Administration	236,058	243,539	243,991
School Administration	485,391	460,767	461,222
Business	166,000	150,582	150,587
Operating and Maintenance	561,317	566,785	573,586
Pupil Transportation	250,332	302,867	301,378
Support Services Central	2,850	67,696	63,959
Community Service	12,056	12,116	12,093
Other Transactions	<u>62,316</u>	<u>75,234</u>	<u>75,234</u>
Total Expenditures	<u>5,948,464</u>	<u>6,100,033</u>	<u>6,112,563</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	166,726	316,924	275,939
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	<u>(166,433)</u>	<u>(173,081)</u>	<u>(173,081)</u>
Net Change in Fund Balance	293	143,843	102,858
<u>FUND BALANCE</u> - Beginning of Year	<u>254,459</u>	<u>261,545</u>	<u>261,545</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 254,752</u>	<u>\$ 405,388</u>	<u>\$ 364,403</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2008

		<u>SPECIAL REVENUE FUNDS</u>	
		<u>FOOD SERVICE FUND</u>	<u>ATHLETIC ACTIVITIES FUND</u>
<u>ASSETS</u>			
Cash		\$ 2,009	\$ 13,517
Accounts Receivable		356	0
Due from Other Funds		6,700	0
Due from Other Governments		1,851	0
Inventories		7,021	0
TOTAL ASSETS		<u>\$ 17,937</u>	<u>\$ 13,517</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable		\$ 2,739	\$ 1,012
Due to Other Funds		6,250	6,700
Deferred Revenue		1,700	0
Accrued Expenses		887	142
Salaries Payable		4,485	1,856
Total Liabilities		<u>16,061</u>	<u>9,710</u>
 <u>FUND BALANCE</u>			
Reserved for:			
Inventory		7,021	0
Debt Service		0	0
Unreserved			
Designated for:			
Athletics		0	3,807
Undesignated - (Deficit)		(5,145)	0
Total Fund Balance		<u>1,876</u>	<u>3,807</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 17,937</u>	<u>\$ 13,517</u>

DEBT SERVICE FUNDS						TOTAL NONMAJOR GOVERNMENTAL FUNDS
1992 DEBT RETIREMENT	1998 DEBT RETIREMENT	2002 DEBT RETIREMENT	ENERGY BONDS	DURANT SETTLEMENT		
\$ 0	\$ 223,429	\$ 199,318	\$ 0	\$ 0	\$ 438,273	
0	0	0	0	0	356	
0	29,054	6,097	0	0	41,851	
0	0	0	0	25,768	27,619	
0	0	0	0	0	7,021	
\$ 0	\$ 252,483	\$ 205,415	\$ 0	\$ 25,768	\$ 515,120	
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,751	
0	0	10,762	0	0	23,712	
0	0	0	0	25,768	27,468	
0	0	0	0	0	1,029	
0	0	0	0	0	6,341	
0	0	10,762	0	25,768	62,301	
0	0	0	0	0	7,021	
0	252,483	194,653	0	0	447,136	
0	0	0	0	0	3,807	
0	0	0	0	0	(5,145)	
0	252,483	194,653	0	0	452,819	
\$ 0	\$ 252,483	\$ 205,415	\$ 0	\$ 25,768	\$ 515,120	

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>	
	<u>FOOD SERVICE FUND</u>	<u>ATHLETIC ACTIVITIES FUND</u>
<u>REVENUES</u>		
Local Sources	\$ 90,455	\$ 45,978
State Sources	13,735	0
Federal Sources	179,624	0
Total Revenues	283,814	45,978
<u>EXPENDITURES</u>		
Food Service Activities		
Salaries	93,378	0
Employees Benefits	58,616	0
Purchased Services	2,395	0
Supplies, Materials and Other	133,480	0
Capital Outlay	450	0
Athletic Activities		
Salaries	0	81,565
Employees Benefits	0	15,065
Purchased Services	0	25,348
Supplies, Materials and Other	0	16,676
Capital Outlay	0	7,604
Debt Service		
Principal	0	0
Interest and Fees	0	0
Total Expenditures	288,319	146,258
Excess of Revenues Over (Under) Expenditures	(4,505)	(100,280)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In (Out)	0	102,648
Net Change in Fund Balance	(4,505)	2,368
<u>FUND BALANCE</u> - Beginning of Year	6,381	1,439
<u>FUND BALANCE</u> - End of Year	\$ 1,876	\$ 3,807

DEBT SERVICE FUNDS					TOTAL NONMAJOR GOVERNMENTAL FUNDS
1992 DEBT RETIREMENT	1998 DEBT RETIREMENT	2002 DEBT RETIREMENT	ENERGY BONDS	DURANT SETTLEMENT	
\$ 891	\$ 660,039	\$ 279,013	\$ 0	\$ 0	\$ 1,076,376
0	0	0	0	0	13,735
0	0	0	0	0	179,624
891	660,039	279,013	0	0	1,269,735
0	0	0	0	0	93,378
0	0	0	0	0	58,616
0	0	0	0	0	2,395
0	0	0	0	0	133,480
0	0	0	0	0	450
0	0	0	0	0	81,565
0	0	0	0	0	15,065
0	0	0	0	0	25,348
0	0	0	0	0	16,676
0	0	0	0	0	7,604
0	565,000	180,000	50,000	0	795,000
0	157,168	83,987	20,433	0	261,588
0	722,168	263,987	70,433	0	1,491,165
891	(62,129)	15,026	(70,433)	0	(221,430)
(181,393)	181,393	0	70,433	0	173,081
(180,502)	119,264	15,026	0	0	(48,349)
180,502	133,219	179,627	0	0	501,168
\$ 0	\$ 252,483	\$ 194,653	\$ 0	\$ 0	\$ 452,819

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND

BALANCE SHEET
JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 969,348	\$ 994,337
Accounts Receivable	124	0
Due from Other Funds	6,250	11,447
Due from Other Governmental Units	621,980	492,919
Inventory	71,943	0
Investments	1,158,472	1,083,327
	<hr/>	<hr/>
TOTAL ASSETS	\$ 2,828,117	\$ 2,582,030
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 22,043	\$ 135,773
Due to Other Funds	24,389	2,085
State Aid Anticipation Note	1,738,514	1,547,790
Accrued Expenses	204,222	173,833
Salaries Payable	474,546	457,416
Deferred Revenue	0	3,588
	<hr/>	<hr/>
Total Liabilities	2,463,714	2,320,485
	<hr/>	<hr/>
<u>FUND BALANCE</u>		
Reserved for Inventory	71,943	0
Unreserved		
Undesignated	292,460	261,545
	<hr/>	<hr/>
Total Fund Balance	364,403	261,545
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,828,117	\$ 2,582,030
	<hr/>	<hr/>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>		
Local Sources	\$ 3,000,496	\$ 2,802,037
State Sources	2,741,435	2,930,399
Federal Sources	243,306	207,943
Other Transactions	403,265	377,333
Total Revenues	<u>6,388,502</u>	<u>6,317,712</u>
<u>EXPENDITURES</u>		
Instruction		
Basic Programs		
Elementary	1,511,739	1,420,249
Middle School	664,541	732,067
High School	801,685	831,634
Pre-School	108,600	42,180
Summer School	6,753	258
Added Needs		
Special Education	521,322	556,143
Compensatory Education	198,490	288,430
Career and Technical Education	136,158	172,841
Supporting Services		
Pupil		
Guidance Services	67,306	73,386
Social Work Services	29,346	0
Other Pupil Services	47,644	40,389
Instructional Staff		
Improvement of Instruction	84,103	27,022
Educational Media Services	30,322	33,991
Supervision and Direction of Instructional Staff	22,504	16,304
General Administration		
Board of Education	32,045	34,520
Executive Administration	211,946	219,223

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
School Administration		
Office of the Principal	459,765	498,110
Other School Administration	1,457	624
Business		
Fiscal Services	56,446	56,406
Other Business Services	94,141	79,689
Operation and Maintenance of Plant	573,586	570,856
Pupil Transportation Services	301,378	347,669
Support Services Central		
Staff/Personnel Services	2,871	8,636
Information Management Services	61,088	44,713
Community Services		
Community Recreation	12,093	10,060
Other Transactions	75,234	113,574
	<hr/>	<hr/>
Total Expenditures	6,112,563	6,218,974
	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	275,939	98,738
	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES (USES)</u>		
Loan Proceeds	0	81,886
Transfers In	0	5,000
Transfers Out	(173,081)	(178,538)
	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(173,081)	(91,652)
	<hr/>	<hr/>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	102,858	7,086
	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	261,545	254,459
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 364,403	\$ 261,545
	<hr/> <hr/>	<hr/> <hr/>

PELLSTON PUBLIC SCHOOLS
PELLSTON , MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>LOCAL SOURCES</u>		
Property Taxes	\$ 2,867,254	\$ 2,657,743
Charges for Services	26,028	24,128
Earnings on Investments and Deposits	60,392	58,944
Other Local Revenue	46,822	61,222
	<hr/>	<hr/>
Total Local Sources	3,000,496	2,802,037
	<hr/>	<hr/>
<u>STATE SOURCES</u>		
State Aid	2,498,810	2,728,801
Other State Revenue	242,625	201,598
	<hr/>	<hr/>
Total State Sources	2,741,435	2,930,399
	<hr/>	<hr/>
<u>FEDERAL SOURCES</u>		
Title I	166,587	132,595
Title II - Part A	45,393	44,444
Title II - Part D	1,693	1,472
Title V	1,518	2,080
Title VII	26,088	25,109
Other	2,027	2,243
	<hr/>	<hr/>
Total Federal Sources	243,306	207,943
	<hr/>	<hr/>
<u>OTHER TRANSACTIONS</u>		
Char-Em ISD	376,171	377,333
Other	27,094	0
	<hr/>	<hr/>
Total Other Transactions	403,265	377,333
	<hr/>	<hr/>
Total Revenues	6,388,502	6,317,712
	<hr/>	<hr/>
<u>OTHER FINANCING SOURCES</u>		
Loan Proceeds	0	81,886
Transfer In	0	5,000
	<hr/>	<hr/>
Total Other Financing Sources	0	86,886
	<hr/>	<hr/>
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 6,388,502	\$ 6,404,598
	<hr/>	<hr/>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>INSTRUCTION</u>		
<u>Basic Programs</u>		
<u>Elementary</u>		
Salaries	\$ 970,737	\$ 909,774
Employee Benefits	529,314	481,780
Purchased Services	392	0
Supplies, Materials and Other	11,296	28,695
Total Elementary	<u>1,511,739</u>	<u>1,420,249</u>
<u>Middle School</u>		
Salaries	421,380	469,385
Employee Benefits	228,203	237,563
Purchased Services	488	488
Supplies, Materials and Other	14,470	24,631
Total Middle School	<u>664,541</u>	<u>732,067</u>
<u>High School</u>		
Salaries	491,521	514,379
Employee Benefits	276,802	293,338
Purchased Services	5,165	4,435
Supplies, Materials and Other	28,197	19,482
Total High School	<u>801,685</u>	<u>831,634</u>
<u>Pre-School</u>		
Purchased Services	108,600	42,180
Total Pre-School	<u>108,600</u>	<u>42,180</u>
<u>Summer School</u>		
Salaries	5,190	0
Employee Benefits	1,320	0
Supplies, Materials and Other	243	258
Total Summer School	<u>6,753</u>	<u>258</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Added Needs</u>		
<u>Special Education</u>		
Salaries	337,921	358,169
Employee Benefits	179,640	194,256
Purchased Services	2,460	947
Supplies, Materials and Other	1,301	2,771
Total Special Education	<u>521,322</u>	<u>556,143</u>
<u>Compensatory Education</u>		
Salaries	73,920	133,857
Employee Benefits	39,140	66,095
Purchased Services	76,605	80,589
Supplies, Materials and Other	8,825	7,889
Total Compensatory Education	<u>198,490</u>	<u>288,430</u>
<u>Career and Technical Education</u>		
Salaries	70,160	84,764
Employee Benefits	37,734	47,451
Purchased Services	357	2,214
Supplies, Materials and Other	8,231	8,941
Capital Outlay	19,676	29,471
Total Career and Technical Education	<u>136,158</u>	<u>172,841</u>
<u>SUPPORTING SERVICES</u>		
<u>Pupil</u>		
<u>Guidance Services</u>		
Salaries	38,425	41,968
Employee Benefits	24,853	26,245
Purchased Services	4,028	4,937
Supplies, Materials and Other	0	236
Total Guidance Services	<u>67,306</u>	<u>73,386</u>
<u>Social Work Services</u>		
Salaries	19,490	0
Employee Benefits	9,032	0
Purchased Services	0	0
Supplies, Materials and Other	824	0
Total Social Work Services	<u>29,346</u>	<u>0</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Other Pupil Services</u>		
Salaries	35,959	31,656
Employee Benefits	11,685	8,733
Total Other Pupil Services	<u>47,644</u>	<u>40,389</u>
<u>Instructional Staff</u>		
<u>Improvement of Instruction</u>		
Salaries	40,031	3,000
Employee Benefits	18,324	754
Purchased Services	23,602	23,268
Supplies, Materials and Other	2,146	0
Total Improvement of Instruction	<u>84,103</u>	<u>27,022</u>
<u>Educational Media Services</u>		
Salaries	18,692	21,659
Employee Benefits	9,727	11,210
Purchased Services	174	174
Supplies, Materials and Other	1,729	948
Total Educational Media Services	<u>30,322</u>	<u>33,991</u>
<u>Supervision and Direction of Instructional Staff</u>		
Salaries	18,175	12,825
Employee Benefits	4,329	3,479
Total Supervision and Direction of Instructional Staff	<u>22,504</u>	<u>16,304</u>
<u>General Administration</u>		
<u>Board of Education</u>		
Salaries	7,260	6,276
Employee Benefits	16	29
Purchased Services	21,517	28,215
Supplies, Materials and Other	3,252	0
Total Board of Education	<u>32,045</u>	<u>34,520</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Executive Administration</u>		
Salaries	127,063	129,212
Employee Benefits	59,413	59,060
Purchased Services	16,813	19,734
Supplies, Materials and Other	8,657	11,217
Total Executive Administration	<u>211,946</u>	<u>219,223</u>
 <u>School Administration</u>		
<u>Office of the Principal</u>		
Salaries	289,093	312,834
Employee Benefits	133,118	142,387
Purchased Services	31,696	34,435
Supplies, Materials and Other	5,858	8,454
Total Office of the Principal	<u>459,765</u>	<u>498,110</u>
 <u>Other School Administration</u>		
Supplies, Materials and Other	1,457	624
Total Other School Administration	<u>1,457</u>	<u>624</u>
 <u>Business</u>		
<u>Fiscal Services</u>		
Purchased Services	56,383	56,282
Supplies, Materials and Other	63	124
Total Fiscal Services	<u>56,446</u>	<u>56,406</u>
 <u>Other Business Services</u>		
Supplies, Materials and Other	94,141	79,689
Total Other Business Services	<u>94,141</u>	<u>79,689</u>
 <u>Operation and Maintenance of Plant</u>		
Salaries	105,562	121,887
Employee Benefits	63,732	62,865
Purchased Services	177,598	158,977
Supplies, Materials and Other	226,194	217,024
Capital Outlay	500	10,103
Total Operation and Maintenance of Plant	<u>573,586</u>	<u>570,856</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>Pupil Transportation Services</u>		
Salaries	152,491	158,946
Employee Benefits	60,100	60,066
Purchased Services	16,707	14,502
Supplies, Materials and Other	72,080	53,269
Capital Outlay	0	60,886
Total Pupil Transportation Services	<u>301,378</u>	<u>347,669</u>
<u>Support Services-Central</u>		
<u>Staff/Personnel Services</u>		
Purchased Services	2,311	306
Supplies, Materials and Other	560	8,330
Total Staff/Personnel Services	<u>2,871</u>	<u>8,636</u>
<u>Information Management Services</u>		
Purchased Services	42,649	36,229
Supplies, Materials and Other	18,439	8,484
Total Information Management Services	<u>61,088</u>	<u>44,713</u>
<u>COMMUNITY SERVICES</u>		
<u>Community Recreation</u>		
Salaries	7,350	6,333
Employee Benefits	1,811	1,529
Purchased Services	1,520	1,708
Supplies, Materials and Other	1,412	490
Total Community Recreation	<u>12,093</u>	<u>10,060</u>
<u>OTHER TRANSACTIONS</u>		
<u>Architecture and Engineering Services</u>		
Purchased Services	2,500	0
Capital Outlay	0	70,187
<u>Debt Service</u>		
Payments on Loan Principal and Interest	72,734	43,387
Total Other Transactions	<u>75,234</u>	<u>113,574</u>
Total Expenditures	<u>6,112,563</u>	<u>6,218,974</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2007

	<u>2008</u>	<u>2007</u>
<u>OTHER FINANCING USES</u>		
<u>Operating Transfers Out</u>		
Athletic Activities	102,648	106,000
Energy Bonds Debt Service Fund	70,433	72,538
Total Other Financing Uses	<u>173,081</u>	<u>178,538</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 6,285,644</u>	<u>\$ 6,397,512</u>

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2008

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	<u>7/01/07</u>	<u>(Including Transfers)</u>		<u>6/30/08</u>
Cadwell Scholarship	\$ 20,493	\$ 856	\$ 0	\$ 21,349
Hayes Scholarship	1,441	3,600	3,600	1,441
Johnson Scholarship	5,000	0	500	4,500
PEA Scholarship	76	0	76	0
Sports Boosters Scholarship	1,500	1,500	1,500	1,500
Walsh Scholarship	1,248	0	0	1,248
Athletic General	217	1,019	3,095	(1,859)
Band Boosters	3,136	10,525	12,965	696
Beverage Consortium	8,562	4,822	8,589	4,795
Casual Wear	540	136	54	622
Christmas/Needy	61	1,633	1,273	421
Elem. Social Fund	278	325	515	88
Elem. Teachers Pop	366	1,987	1,509	844
Elementary Principal	1,621	1,000	1,849	772
General Fund	0	124	0	124
HS Principal	435	1,000	1,435	0
Interest and Miscellaneous	953	3,979	4,031	901
McClutchey Field Improvement	47	7,150	7,195	2
Middle School Principal	(215)	4,501	2,633	1,653
Middle School/High School Social Fund	506	210	435	281
Office Concessions	222	2,694	2,297	619
Popcorn Poppers - Elementary	433	1,260	1,500	193
RIF Bookfair	126	9,644	8,615	1,155
Safety Sam	1,605	0	0	1,605
Science/Trout	0	89	0	89
Sports Boosters	529	22,409	20,823	2,115
Woodshop	2,264	4,361	1,620	5,005
Art	1,028	830	883	975
Baseball	1,282	4,141	3,220	2,203
Class of 2004	128	0	128	0
Class of 2005	37	0	37	0
Class of 2006	490	0	229	261
Class of 2007	252	0	230	22
Class of 2008	1,807	0	1,239	568
Class of 2009	2,698	3,981	5,627	1,052

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2008

	<u>BALANCE</u> 7/01/07	<u>RECEIPTS</u> (Including Transfers)	<u>DISBURSEMENTS</u>	<u>BALANCE</u> 6/30/08
Class of 2010	1,192	174	158	1,208
Class of 2011	1,310	257	123	1,444
Class of 2012	4,151	4,663	8,025	789
Class of 2013	185	3,123	1,915	1,393
Close-Up	8	4,050	3,841	217
Earthen Vessels	5	0	0	5
Elementary Drama	884	802	517	1,169
Elementary School Cash	772	1,178	605	1,345
Elementary Art	0	134	0	134
Elementary Library	0	9	0	9
Fifth Grade	605	2,896	2,635	866
First Grade	626	1,400	1,518	508
Fourth Grade	500	1,626	1,376	750
High School Boys Basketball	1,630	40	210	1,460
High School Cheerleading	757	221	0	978
High School Drama	534	2,101	1,464	1,171
High School Girls Basketball	714	1,545	2,170	89
High School Girls Softball	117	1,541	1,597	61
High School Student Council	737	4,039	2,552	2,224
Junior High Girls Basketball	81	786	861	6
Kindergarten	763	1,866	1,835	794
Math Department	250	2,067	2,073	244
Middle School Student Council	(59)	2,524	2,491	(26)
Middle School/High School Track	355	28	66	317
Multicultural	378	0	0	378
National Honors Society	242	578	894	(74)
Renaissance	1,168	0	0	1,168
SADD	422	0	422	0
Second Grade	972	520	1,347	145
Ski Club	58	15,303	15,257	104
Spanish Club	230	0	209	21
STAND	78	0	78	0
START	960	426	613	773
Student Flow	80	1,779	1,727	132
Third Grade	750	1,329	1,297	782

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2008

	<u>BALANCE</u> 7/01/07	<u>RECEIPTS</u> (Including Transfers)	<u>DISBURSEMENTS</u>	<u>BALANCE</u> 6/30/08
Varsity Football	1,942	5,791	6,243	1,490
Volleyball	1,284	5,712	5,404	1,592
Yearbook	1,338	8,657	9,132	863
Youth Enrichment	679	0	0	679
	<u>\$ 85,864</u>	<u>\$ 170,941</u>	<u>\$ 176,357</u>	<u>\$ 80,448</u>
Represented by				
Assets				
Cash and Cash Equivalents	\$ 11,058			\$ 2,604
Investments	<u>74,806</u>			<u>77,844</u>
Total Assets	<u>\$ 85,864</u>			<u>\$ 80,448</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 85,864</u>			<u>\$ 80,448</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2008

<u>TITLE OF ISSUE</u>	2004 Energy Conservation Improvement Bonds
<u>DATE OF ISSUE</u>	July 9, 2004
<u>INTEREST PAYABLE</u>	May 1, and November 1 of each year
<u>AMOUNT OF ISSUE</u>	\$ 575,000
<u>AMOUNT REDEEMED</u>	
Redeemed Prior to Current Year	\$ 95,000
Redeemed During Current Year	50,000
	<u>145,000</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>	<u>\$ 430,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2008	4.21%	\$ 9,052	\$ 9,052	\$ 0
May 1, 2009	4.21%	64,052	9,052	55,000
November 1, 2009	4.21%	7,894	7,894	0
May 1, 2010	4.21%	62,894	7,894	55,000
November 1, 2010	4.21%	6,736	6,736	0
May 1, 2011	4.21%	66,736	6,736	60,000
November 1, 2011	4.21%	5,473	5,473	0
May 1, 2012	4.21%	65,473	5,473	60,000
November 1, 2012	4.21%	4,210	4,210	0
May 1, 2013	4.21%	69,210	4,210	65,000
November 1, 2013	4.21%	2,842	2,842	0
May 1, 2014	4.21%	67,842	2,842	65,000
November 1, 2014	4.21%	1,474	1,474	0
May 1, 2015	4.21%	71,474	1,474	70,000
		<u>\$ 505,362</u>	<u>\$ 75,362</u>	<u>\$ 430,000</u>

Note: This Bond is not subject to redemption prior to maturity by the District.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2008

<u>TITLE OF ISSUE</u>	Durant Settlement Bonds		
<u>DATE OF ISSUE</u>	November 24, 1998		
<u>INTEREST PAYABLE</u>	May 1 of each year		
<u>AVERAGE INTEREST RATE</u>	4.760%		
<u>AMOUNT OF ISSUE</u>		\$	43,640
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year		\$	17,872
Redeemed During Current Year			<u>0</u>
			<u>17,872</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>		\$	<u><u>25,768</u></u>

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
May 1, 2009	\$ 20,590	\$ 5,750	\$ 14,840
May 1, 2010	3,066	520	2,546
May 1, 2011	3,064	399	2,665
May 1, 2012	3,064	272	2,792
May 1, 2013	3,064	139	2,925
	<u>\$ 32,848</u>	<u>\$ 7,080</u>	<u>\$ 25,768</u>

Note: This Bond is not subject to redemption prior to maturity by the District.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2008

<u>TITLE OF ISSUE</u>	2002 School Building and Site Bond		
<u>DATE OF ISSUE</u>	February 2, 2002		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>	\$ 2,600,000		
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$ 625,000		
Redeemed During Current Year	<u>180,000</u>	<u>805,000</u>	
<u>BALANCE OUTSTANDING</u> - June 30, 2008		<u>\$ 1,795,000</u>	

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2008	\$ 38,294	\$ 38,294	\$ 0
May 1, 2009	228,294	38,294	190,000
November 1, 2009	34,256	34,256	0
May 1, 2010	234,256	34,256	200,000
November 1, 2010	30,006	30,006	0
May 1, 2011	245,006	30,006	215,000
November 1, 2011	25,438	25,438	0
May 1, 2012	260,438	25,438	235,000
November 1, 2012	20,444	20,444	0
May 1, 2013	255,444	20,444	235,000
November 1, 2013	15,450	15,450	0
May 1, 2014	255,450	15,450	240,000
November 1, 2014	10,350	10,350	0
May 1, 2015	250,350	10,350	240,000
November 1, 2015	5,250	5,250	0
May 1, 2016	245,250	5,250	240,000
	<u>\$ 2,153,976</u>	<u>\$ 358,976</u>	<u>\$ 1,795,000</u>

Note: Bonds of this issue maturing in the fiscal years 2007 through 2011, inclusive, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the year 2012 and thereafter, shall be subject to redemption prior to maturity, at the option of the issuer, in such order as the issuer may determine and by lot within any maturity, on any interest payment date on or after May 1, 2011, at par and accrued interest to the date fixed for redemption.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN
SCHEDULE OF BONDS PAYABLE
JUNE 30, 2008

<u>TITLE OF ISSUE</u>	1998 General Obligation Refunding Bonds		
<u>DATE OF ISSUE</u>	June 30, 1998		
<u>INTEREST PAYABLE</u>	May 1 of each year		
<u>AMOUNT OF ISSUE</u>			\$ 3,720,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$ 315,000		
Redeemed During Current Year	<u>565,000</u>	<u>880,000</u>	
<u>BALANCE OUTSTANDING</u> - June 30, 2008			<u>\$ 2,840,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
May 1, 2009	4.50%	\$ 751,250	\$ 131,250	\$ 620,000
May 1, 2010	4.55%	783,350	103,350	680,000
May 1, 2011	4.65%	812,410	72,410	740,000
May 1, 2022	4.75%	838,000	38,000	800,000
		<u>\$ 3,185,010</u>	<u>\$ 345,010</u>	<u>\$ 2,840,000</u>

Note: The Bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2009, are subject to redemption at the option of the District in such order as the District may determine by lot within any maturity, on any interest payment date occurring on or after May 1, 2008, at par plus accrued interest to the date fixed for redemption.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2008

<u>TITLE OF ISSUE</u>	1993 General Obligation Refunding Bonds
<u>DATE OF ISSUE</u>	October 6, 1993
<u>INTEREST PAYABLE</u>	May 1 of each year
<u>AMOUNT OF ISSUE</u>	\$ 2,437,230
<u>AMOUNT REDEEMED</u>	
Redeemed Prior to Current Year	\$ 0
Redeemed During Current Year	<u>0</u>
<u>BALANCE OUTSTANDING</u> - June 30, 2008	<u><u>\$ 2,437,230</u></u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
May 1, 2009	0.00%	\$ 0	\$ 0	\$ 0
May 1, 2010	0.00%	0	0	0
May 1, 2011	0.00%	0	0	0
May 1, 2012	0.00%	0	0	0
May 1, 2013	5.70%	855,000	570,362	284,638
May 1, 2014	5.70%	895,000	613,326	281,674
May 1, 2015	5.85%	933,679	664,493	269,186
May 1, 2016	5.85%	975,732	710,184	265,548
May 1, 2017	5.85%	1,014,768	754,069	260,699
May 1, 2018	5.85%	1,005,000	761,277	243,723
May 1, 2019	5.90%	1,007,909	780,029	227,880
May 1, 2020	5.90%	997,037	784,349	212,688
May 1, 2021	5.90%	1,000,123	798,829	201,294
May 1, 2022	5.90%	1,000,000	810,100	189,900
		<u>\$ 9,684,248</u>	<u>\$ 7,247,018</u>	<u>\$ 2,437,230</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF INDEBTEDNESS
JUNE 30, 2008

Note: Bonds of this issue maturing on or after May 1, 2009, are subject to redemption prior to maturity at the option of the issuer in multiples of \$5,000 in such order as the issuer may determine, by lot within any maturity, on any May 1, and November 1, occurring on or after May 1, 2008, at the redemption prices (expressed as percentages of the Appreciated Amount on the date of redemption) set forth in the following table:

<u>Redemption Period</u>	<u>Redemption Price</u>
May 1, 2008, through April 30, 2009	103.0%
May 1, 2009, through April 30, 2010	102.0%
May 1, 2010, through April 30, 2011	101.0%
May 1, 2011, and thereafter	100.0%

The Bonds maturing on May 1, 2018, are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2015	\$ 933,679
May 1, 2016	975,733
May 1, 2017	1,014,768
May 1, 2018 (maturity)	1,005,000

The Bonds maturing on May 1, 2022, are term bonds subject to mandatory redemption, in part by lot on the redemption dates and at a redemption price equal to the appreciated amount thereof, without premium, as set forth below:

<u>Redemption Date</u>	<u>Appreciated Amount</u>
May 1, 2019	\$ 1,007,909
May 1, 2020	977,037
May 1, 2021	1,000,123
May 1, 2022 (maturity)	1,000,000

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF INDEBTEDNESS
JUNE 30, 2008

	Date of Note	Amount of Note	Interest Rate	Date of Maturity	Total Outstanding at June 30, 2008	Total Interest Payable
Bus Notes Payable (Installment Purchase Agreement)						
2006 Bus Note Payable	7/27/2006	\$ 60,886	4.29%	7/27/2008	\$ 31,082	\$ 1,333
					31,082	1,333
2004 Bus Note Payable	10/8/2004	54,110	3.04%	9/22/2008	10,822	658
			3.04%	9/22/2009	10,822	329
					21,644	987
2003 Bus Note Payable	8/19/2003	53,102	2.87%	8/19/2008	11,230	322
					11,230	322
Total Bus Notes Payable					\$ 63,956	\$ 2,642

	Date of Note	Amount of Note	Interest Rate	Date of Maturity	Total Outstanding at June 30, 2008	Total Interest Payable
Bleacher Note Payable (Installment Note Payable)						
Bleacher Note Payable	6/27/2006	\$ 21,000	4.29%	7/27/2008	\$ 10,720	\$ 460
Total Bleacher Notes Payable					\$ 10,720	\$ 460

Baird, Cotter and Bishop, P.C.

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July 18, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Pellston Public Schools
Pellston, Michigan

We have audited the financial statements of the governmental activities, and each major fund of Pellston Public Schools, Pellston, Michigan as of and for the year ended June 30, 2008, which collectively comprise Pellston Public Schools, Pellston, Michigan's basic financial statements and have issued our report thereon dated July 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pellston Public Schools, Pellston, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pellston Public Schools, Pellston, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pellston Public Schools, Pellston, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pellston Public Schools, Pellston, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pellston Public Schools, Pellston, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Pellston Public Schools, Pellston, Michigan's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting. This deficiency is referenced as 2008-1.

Finding 2008-1: The relatively small number of people involved in the accounting functions of the District makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

View of Responsible Official: Due to the decreasing enrollments and budgetary constraints, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the District's assets. To the extent possible, duties are allocated between the contracted accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Superintendent assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pellston Public Schools, Pellston, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Pellston Public Schools, Pellston, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described above.

We noted certain matters that we reported to management of Pellston Public Schools, Pellston, Michigan, in a separate letter dated July 18, 2008.

Pellston Public Schools, Pellston, Michigan's response to the findings identified in our audit is above. We did not audit Pellston Public Schools, Pellston, Michigan's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Education, management, the Michigan Department of Education and other regulatory bodies. However, this report is a matter of public record, and its distribution is not limited.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

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July 18, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education
Pellston Public Schools
Pellston, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pellston Public Schools for the year ended June 30, 2008, and has issued our report thereon dated July 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Pellston Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Pellston Public School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pellston Public Schools are described in Note I to the financial statements. No new

accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 18, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of Pellston Public Schools for the year ended June 30, 2008, we noted the following list of items which we feel deserve comment:

Public Act 621

The School has adequate procedures and controls in place to prepare and monitor the budgets. However, we did note the following items that were not in compliance with Public Act 621 (Uniform Budgeting and Accounting Act).

The Food Service Fund expenditures exceeded the budgeted amounts. Also several functions within the General Fund exceeded the budgeted amounts. These overages were very small and were caused by an adjustment done after the final budget amendment.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.